conditions, including regulatory approvals and approval by Metro Mobile shareowners, and is expected to be completed by June 30, 1992.

17. Segment Information

Communications and Related Services—Provides voice and data transport and calling services, network access, directory publishing, inside wire maintenance, and public telephones to customers in the mid-Atlantic region; provides billing and collection services to interexchange carriers; provides cellular mobile communications products and services; markets and maintains customer premises equipment to originate, route, or receive telecommunications; services and repairs computers; and provides software for telecommunications and computer networking.

Financial and Real Estate Services—Engages in lease financing of commercial, industrial, medical, and high-technology equipment and in real estate investment and development.

	1991	1990	1989
	(Dollars in Millions)		
Operating revenues:			
Communications and Related Services	$11,643.9	$11,525.3	$10,753.3
Financial and Real Estate Services	635.8	772.7	695.3
	$12,279.7	$12,298.0	$11,448.6
Operating profit (loss):			
Communications and Related Services	$ 2,563.0	$ 2,606.1	$ 2,087.8
Financial and Real Estate Services	5.0	58.1	(15.3)
	2,568.0	2,664.2	2,072.5
Corporate expense	(42.6)	(54.6)	(59.7)
Interest expense, excluding Financial Services	(705.0)	(659.7)	(542.8)
Allowance for funds used during construction	20.6	24.4	28.5
Equity in income of affiliates	79.5	52.5	26.7
Interest income	30.5	40.3	60.4
Other nonoperating income (expense)	45.4	(85.0)	(40.1)
Income before provision for income taxes and cumulative effect of change in accounting principle	$ 1,996.4	$ 1,982.1	$ 1,545.5
Identifiable assets:			
Communications and Related Services	$23,729.6	$23,621.1	$21,560.6
Financial and Real Estate Services	3,873.7	4,243.0	4,084.1
Corporate assets	278.3	134.4	575.0
	$27,881.6	$27,998.5	$26,219.7
Depreciation and amortization:			
Communications and Related Services	$ 2,020.7	$ 2,063.3	$ 2,073.3
Financial and Real Estate Services	278.0	313.9	346.6
	$ 2,298.7	$ 2,377.2	$ 2,419.9
Additions to plant, property and equipment:			
Communications and Related Services	$ 2,439.0	$ 2,501.6	$ 2,459.8
Financial and Real Estate Services	155.1	115.2	168.3
	$ 2,594.1	$ 2,616.8	$ 2,628.1

Operating profit for each segment consists of total revenues less applicable costs and expenses related to operations, including, in the case of Financial Services, interest expense. Corporate assets consist principally of cash and cash equivalents and short-term investments.

Operating profit of the Communications and Related Services segment for 1991 was reduced by $68.8 million as a result of a retirement incentive program and related restructuring costs discussed in Note 3. Also, the operating profit of this segment for 1989 was reduced by $119.5 million as a result of a change in the method of accounting for postretirement health care benefits for Network Services associate employees and by $259.6 million for restructuring and other charges discussed in Note 3.

Operating profit of the Financial and Real Estate Services segment for 1989 was reduced by $59.1 million as a result of the write-down of the excess of the acquisition cost over the fair value of the net assets of certain acquired businesses and other charges discussed in Note 3.

At December 31, 1991, 1990, and 1989, identifiable assets included investments in affiliates of $927.7 million, $1,275.6 million, and $75.9 million, respectively, for the Communications and Related Services segment and $78.0 million, $77.8 million, and $70.8 million, respectively, for the Financial and Real Estate Services segment.

Loss for the Financial and Real Estate Services subsidiaries was $15.7 million, $43.9 million, and $28.8 million in 1991, 1990, and 1989, respectively. In 1990, results were reduced by $60.0 million as a result of the revaluation of the Financial Services business discussed in Note 3. Total liabilities associated with the Financial and Real Estate Services subsidiaries were $3,534.8 million and $3,884.9 million in 1991 and 1990, respectively.

For the years ended December 31, 1991, 1990, and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection, and sharing of network facilities, were $1,541.2 million, $1,658.5 million, and $1,657.9 million, respectively.

18. Quarterly Financial Information (unaudited)

Quarter Ended	Operating Revenues	Operating Income	Income Before Cumulative Effect of Change in Accounting Principle	Income Before Cumulative Effect of Change in Accounting Principle Per Common Share	Net Income (Loss)
		(Dollars in Millions, Except Per Share Amounts)			
1991:					
March 31	$2,995.7	$670.6	$344.9	$.88	$(1,209.4)
June 30	3,081.4	686.1	346.4	.89	346.4
September 30*	3,104.0	633.7	374.0	.96	374.0
December 31	3,098.6	535.0	266.3	.68	266.3
1990:					
March 31	$3,018.6	$662.6	$355.3	$.90	$ 355.3
June 30	3,075.5	686.2	362.8	.92	362.8
September 30	3,098.7	682.9	358.4	.91	358.4
December 31**	3,105.2	577.9	236.0	.65	236.0

* Net income for the third quarter of 1991 was increased by $74.1 million, or $.19 per share, as a result of the sale of a portion of the Company's investment in Telecom.

** Net income for the fourth quarter of 1990 was reduced by $60.0 million, or $.15 per share, as a result of the revaluation of the Company's investment in its Financial Services business.

Earnings per common share for the fourth quarter of 1990 was increased by $.05 related to the 1990 impact of the tax benefit of dividends paid on shares held by the ESOPs. Earnings per common share for the first three quarters of 1990 were not restated because the change would not be material.

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Note 9). As a result of the restatement, operating income decreased $14.0 million, $14.0 million, and $13.9 million and income before cumulative effect of change in accounting principle decreased $8.7 million ($.03 per share), $8.7 million ($.02 per share), and $8.7 million ($.02 per share) for the quarters ended March 31, June 30, and September 30, respectively.

Directors & Officers

Bell Atlantic Corporation
Board of Directors

Thomas E. Bolger
Chairman of the Executive Committee of the Board of Directors, Bell Atlantic Corporation

Anton J. Campanella
President, Bell Atlantic Corporation

Frank C. Carlucci
Vice Chairman, Carlyle Group

William G. Copeland
Chairman of the Board, Continental American Life Insurance Company of Delaware

James H. Gilliam, Jr.
Executive Vice President and General Counsel, Beneficial Corporation

Gerald T. Halpin
*Chairman and President, West*Group, Inc.*

Thomas H. Kean
President, Drew University

Robert A. Levetown
Vice Chairman—Law and External Affairs, Bell Atlantic Corporation

John C. Marous, Jr.
Retired Chairman, Westinghouse Electric Corporation

John F. Maypole
Managing Partner, Peach State Real Estate Holding Company

Thomas H. O'Brien
Chairman and Chief Executive Officer, PNC Financial Corp.

Rozanne L. Ridgway
President, The Atlantic Council of the United States

Raymond W. Smith
Chairman of the Board of Directors and Chief Executive Officer, Bell Atlantic Corporation

Shirley Young
Vice President, Consumer Market Development, General Motors Corporation

Executive Officers

Raymond W. Smith
Chairman and Chief Executive Officer

Anton J. Campanella
President

Robert A. Levetown
Vice Chairman—Law and External Affairs

William O. Albertini
Vice President and Chief Financial Officer

Lawrence T. Babbio, Jr.
Chairman, President and Chief Executive Officer, Bell Atlantic Enterprises International, Inc.

A. Gray Collins
Executive Vice President—Corporate Relations

Barbara L. Connor
Vice President—Treasurer

Charles W. Crist
Vice President—Human Resources

James G. Cullen
President and Chief Executive Officer, New Jersey Bell Telephone Company

James H. Dickerson, Jr.
Vice President—Finance and Controller

John F. Gamba
President, Bell Atlantic Network Services, Inc.

John M. Kelleher
Vice President and Deputy General Counsel

Mark J. Mathis
Vice President, Deputy General Counsel and Secretary

William M. Newport
Vice President—Strategic Planning

Robert M. Valentini
President and Chief Executive Officer, The Bell Telephone Company of Pennsylvania

Shareowner Information

Form 10-K

Copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission can be obtained, without charge, by contacting Bell Atlantic Shareowner Services, 1717 Arch Street, 46th Floor, Philadelphia, PA 19103.

Stock Market and Dividend Information

Bell Atlantic is listed in newspaper stock tables under "BellAtl" and its ticker symbol is "BEL." Bell Atlantic common stock is traded on the New York, Philadelphia, Midwest, Boston, Pacific, London, Zurich, Geneva, Basel, Frankfurt and Tokyo stock exchanges. Dividends on common stock are payable quarterly, upon authorization by the Board of Directors. Based on the current schedule, the expected payment dates are the first business days of February, May, August and November. As of December 31, 1991, Bell Atlantic had 1,097,642 shareowners of record.

High and low stock prices, as reported on the Composite Tape, and dividend data are as follows:

		Market Price		Cash Dividend Declared
		High	Low	
1991:	First Quarter	$54 1/8	$46 3/4	$.63
	Second Quarter	52 3/4	44 1/8	.63
	Third Quarter	50 5/8	44 7/8	.63
	Fourth Quarter	49 1/4	43	.63
1990:	First Quarter	$57 1/8	$43	$.59
	Second Quarter	53 3/4	46 1/8	.59
	Third Quarter	50 3/4	39 1/2	.59
	Fourth Quarter	56 1/4	46	.59
1989:	First Quarter	$38 1/8	$34 5/8	$.55
	Second Quarter	46 1/8	37 3/8	.55
	Third Quarter	50 1/8	43 1/4	.55
	Fourth Quarter	56 1/8	48 1/4	.55

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1991

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-8606

Bell Atlantic Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-2259884 (I.R.S. Employer Identification No.)
1717 Arch Street Philadelphia, Pennsylvania (Address of principal executive offices)	19103 (Zip Code)

Registrant's telephone number, including area code: (215) 963-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York, Philadelphia, Boston, Midwest and Pacific Stock Exchanges
Preference Stock Purchase Rights	New York, Philadelphia, Boston, Midwest and Pacific Stock Exchanges

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ✓

At February 29, 1992, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately $17,275,000,000.

At February 29, 1992, 397,250,911 shares of the registrant's Common Stock were outstanding, after deducting 2,241,729 shares held in treasury.

Documents incorporated by reference:

Portions of the registrant's Annual Report to shareowners for the year ended December 31, 1991 (Part II).

Portions of the registrant's Proxy Statement dated March 2, 1992 prepared in connection with the Annual Meeting of Shareowners (Part III).

TABLE OF CONTENTS

UNLESS OTHERWISE INDICATED, ALL INFORMATION IS AS OF MARCH 23, 1992.

generally prohibited, however, from providing the content of the data they transmit. As the result of an appeal by Bell Atlantic, the other RHCs and other parties of the Court's September 10, 1987 decision, the Court of Appeals ordered the Court to reconsider the RHCs' request to provide information content under a standard more favorable to the RHCs. On July 25, 1991, the Court granted that request, but imposed a stay pending appeal of that decision. On October 7, 1991, the Court of Appeals vacated the stay, permitting the RHCs to provide information services.

COMMUNICATIONS AND RELATED SERVICES

The Network Services Companies

The Network Services Companies presently serve a territory (Territory) consisting of 19 Local Access and Transport Areas (LATAs). These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which a Network Services Company may provide telephone service.

The Network Services Companies provide two basic types of telecommunications services. First, the Network Services Companies transport telecommunications traffic between subscribers located within the same LATA (intraLATA service), including both local and toll services. As permitted by the Plan, Bell of Pennsylvania and New Jersey Bell also earn toll revenue from the provision of telecommunications service between LATAs (interLATA service) in corridors between the cities (and certain surrounding counties) of (a) Philadelphia, Pennsylvania and Camden, New Jersey and (b) New York, New York and Newark, New Jersey. Second, the Network Services Companies provide exchange access service, which links a subscriber's telephone or other equipment to the transmission facilities of interexchange carriers which, in turn, provide service to their customers. Bell of Pennsylvania, C&P of Maryland, C&P of West Virginia and Diamond State also provide exchange access service to interexchange carriers which provide intrastate intraLATA long distance telecommunications service (see "Competition—IntraLATA Competition").

Operations

The Network Services Companies' lines of business comprise Local Service, Network Access, Toll Service, and Directory, Billing and Other Services. Local Service includes the provision of local exchange ("dial tone"), local private line, and public telephone services (including service for both Company-owned and customer-provided coin telephones). Among other services provided in this category are Centrex (central office-based switched telephone service enabling the subscriber to make both intercom and outside calls) and a variety of special and custom calling services. Network Access is the provision to interexchange carriers and local exchange carriers of access to the local exchange network for switched transmissions, and provision to subscribers (including end-users) of dedicated private lines for voice and data transmissions. Toll Service includes message toll service (MTS) (calling service beyond the local calling area) within LATA boundaries, and intraLATA Wide Area Toll Service (WATS)/800 services (volume discount offerings for customers with highly concentrated demand). Directory, Billing and Other Services includes directory publishing (both Yellow Pages and White Pages), billing services for interexchange and other carriers and information service providers, and customer premises services such as inside wire installation and maintenance. The Network Services Companies also provide various operator services.

The Network Services Companies provide billing and collection services, including recording, rating, processing and bill rendering, for interexchange and other carriers. The largest purchaser of billing and collection services is American Telephone and Telegraph Company (AT&T). During the last several years, however, AT&T ceased its purchase of interstate WATS and private line billing and of billing inquiry services from all of the Network Services Companies, as well as its purchase of MTS billing for a small percentage of its total customer base. By October 1991, AT&T had also ceased its purchase of rating and most recording services from the Network Services Companies. The Network Services Companies have also entered into arrangements to provide billing services for MCI Communications Corporation (MCI), US Sprint Communications Company (US Sprint) and certain other carriers. The Network Services Companies also provide customized billing services to large business customers.

The Network Services Companies have been making and expect to continue to make significant construction expenditures to meet the demand for communications services and to further improve such services. The total investment in plant, property and equipment increased from $28,458.9 million at December 31, 1989 to $29,733.4 million at December 31, 1990, and to $30,709.0 million at December 31, 1991, in each case after giving effect to retirements, but before deducting accumulated depreciation at such date. Construction expenditures of the Network Services Companies were $2,320 million in 1990 and $2,298 million in 1991 (see Item 2—"Properties" for an analysis by component of such expenditures).

The Network Services Companies are projecting construction expenditures of approximately $2.4 billion for 1992. Most of these funds are expected to be generated internally. Some external financing may be necessary or desirable for some of the Network Services Companies.

FCC Regulation and Interstate Rates

The Network Services Companies are subject to the jurisdiction of the Federal Communications Commission (FCC) with respect to interstate services and certain related matters. The FCC prescribes a uniform system of accounts for telephone companies, interstate depreciation rates and the principles and standard procedures used to separate plant investment, expenses, taxes and reserves between those applicable to interstate services under the jurisdiction of the FCC and those applicable to intrastate services under the jurisdiction of the respective state regulatory authorities (separations procedures). The FCC also prescribes procedures for allocating costs and revenues between regulated and unregulated activities.

Interstate Access Charges

The Network Services Companies provide intraLATA service but with limited exceptions do not participate in the provision of interLATA service except through offerings of exchange access service. The FCC has prescribed structures for exchange access tariffs to specify the charges (Access Charges) for use of the Network Services Companies' facilities used or available for the origination and termination of interstate interLATA service. These charges are intended to recover the related costs of the Network Services Companies which have been allocated to the interstate jurisdiction (Interstate Costs) under the FCC's separations procedures.

In general, the tariff structures prescribed by the FCC provide that Interstate Costs of the Network Services Companies which do not vary based on usage (non-traffic sensitive costs) are recovered from subscribers through flat monthly charges (Subscriber Line Charges), and from interexchange carriers through usage sensitive Carrier Common Line (CCL) charges (see "FCC Access Charge Pooling Arrangements"). Traffic-sensitive Interstate Costs are recovered from carriers through variable access charges based on several factors, primarily usage.

In May 1984, the FCC authorized the implementation of Access Charge tariffs for "switched access service" (access to the local exchange network) and of Subscriber Line Charges for multiple line business customers (up to $6.00 per month per line). In 1985, the FCC authorized Subscriber Line Charges for residential and single-line business customers at the rate of $1.00 per month per line, which increased to $2.00 effective June 1, 1986, to $2.60 effective July 1, 1987, to $3.20 effective December 1, 1988, and to $3.50 on April 1, 1989.

As a result of the phasing in of Subscriber Line Charges, a substantial portion of non-traffic sensitive Interstate Costs is now recovered directly from subscribers, thereby reducing the per-minute CCL charges to interexchange carriers. The significant reduction in CCL charges has tended to reduce the incentive for interexchange carriers and their high-volume customers to bypass the Network Services Companies' switched network via special access lines or alternative communications systems. (See "Competition—Bypass.")

FCC Access Charge Pooling Arrangements

The FCC previously required that all local exchange carriers (LECs), including the Network Services Companies, pool revenues from CCL and Subscriber Line Charges which cover Interstate Costs associated with the lines from subscribers' premises to telephone company central offices, i.e., the non-traffic sensitive costs of the local exchange network. To administer such pooling arrangements, the FCC mandated the formation of the National Exchange Carrier Association, Inc. (NECA). Some LECs received more revenue from the pool than they billed their interexchange carrier customers using the nationwide average CCL rate. Other companies, including all but one of the Network Services Companies, received substantially less from the pool than the amount billed to their interexchange carrier customers.

By an Order adopted in 1987, the FCC changed its mandatory pooling requirements. These changes, which were effective April 1, 1989, permitted the Network Services Companies to withdraw from the pool and to charge CCL rates which more closely reflect their non-traffic sensitive costs. The Network Services Companies are still obligated to make contributions of CCL revenues to companies who choose to continue to pool non-traffic sensitive costs so that the pooling companies can charge a CCL rate no greater than the nationwide average CCL rate. In addition to the continuing obligation, the Network Services Companies have a transitional support obligation to high cost companies who left the pool in 1989 and 1990. This transitional support obligation phases out over five years. These long-term and transitional support requirements will be recovered in the Network Services Companies' CCL rates.

Depreciation

Depreciation rates provide for the recovery of the Network Services Companies' investment in telephone plant, and are revised periodically to reflect more current estimates of remaining service lives and future net salvage. In January 1988, the FCC issued an Order requiring LECs such as the Network Services Companies to amortize certain interstate depreciation reserve deficiencies over a five-year period, retroactive to January 1, 1987. The FCC had previously authorized the amortization of these differences by four of the Network Services Companies over a shorter period. In August 1991, the FCC ordered the Network Services Companies to amortize the remaining balance of the reserve deficiencies over the period from July 1991 to June 30, 1992.

Interstate Access Rate of Return

Pursuant to rules it adopted in 1985 and 1986, the FCC prescribes the rate of return on the interstate access services of LECs such as the Network Services Companies. The FCC has set an 11.25% rate of return for 1991 and beyond. This rate of return serves as a benchmark for regulation of the Network Services Companies under price caps. (See "Price Caps.")

The FCC had also adopted rate of return enforcement rules, which required carriers to target their rates to produce the prescribed return and to refund automatically earnings in excess of their allowable return (the prescribed target return plus an increment of 25 basis points on overall earnings or 40 basis points on each of three categories of service). On January 22, 1988, the U.S. Court of Appeals for the District of Columbia Circuit held that the FCC's automatic refund rule was arbitrary and capricious, and remanded the case to the FCC so that it could, if it wished, promulgate a new refund rule. The FCC subsequently stayed indefinitely any requirement that carriers refund excess earnings for the initial enforcement period (October 1985 through December 1986), during which time the prescribed rate of return was 12.75%. The FCC has, however, permitted access customers to file complaints for damages in which the damages are calculated in accordance with the FCC's automatic refund methodology. Appeals of the FCC's rulings permitting such complaints to be filed were dismissed as premature. The Network Services Companies have settled the major complaints.

Under FCC-approved tariffs, the Network Services Companies are charging uniform rates for interstate access services (with the exception of Subscriber Line Charges) in all Bell Atlantic jurisdictions, and are regarded as a single unit by the FCC for rate of return measurement.

Price Caps

On September 19, 1990, the FCC adopted "price cap" regulation as a replacement for traditional rate of return regulation for LECs. The new system places a cap on overall prices for interstate services and requires that the cap decrease annually, in inflation-adjusted terms, by a fixed amount which is intended to reflect expected increases in productivity. The price cap level can also be adjusted to reflect "exogenous" changes, such as changes in FCC separations or accounting rules. LECs subject to price caps have somewhat increased flexibility to change the prices of existing services within certain groupings of interstate services, known as "baskets".

Under price cap regulation, the Network Services Companies can earn a rate of return on overall investment of up to 12.25% (100 basis points over the currently authorized rate of return of 11.25%). If a company's rate of return is between 100 and 500 basis points above the authorized rate of return (that is, currently, between 12.25% and 16.25%), the company must share 50% of the earnings above the 100-basis-point level with customers by reducing rates prospectively. All earnings above the 500-basis-point level must be returned to customers in the form of prospective rate decreases. If, on the other hand, a company's rate of return is more than 100 basis points below the authorized rate of return (that is, currently, below 10.25%), the company is permitted to increase rates prospectively to make up the deficiency.

LEC price cap regulation took effect on January 1, 1991. The LEC price cap order has been appealed by several parties to the United States Court of Appeals for the District of Columbia Circuit. These appeals are being held in abeyance pending the FCC's resolution of pending petitions for reconsideration. Pending a decision on these appeals, which is unlikely to occur within the next year, price cap regulation remains in effect for the Network Services Companies.

Computer Inquiry III

In August 1985, the FCC initiated Computer Inquiry III to re-examine its regulations requiring that "enhanced services" (e.g., voice message services, electronic mail, videotext gateway, protocol conversion) be offered only through a structurally separated subsidiary. In 1986, the FCC eliminated this requirement, permitting the Network Services Companies to offer enhanced services, subject to compliance with a series of nonstructural safeguards designed to promote an effectively competitive market. These safeguards include detailed cost accounting, protection of customer information and certain reporting requirements.

In June 1990, the United States Court of Appeals for the Ninth Circuit vacated and remanded the Computer Inquiry III decisions, finding that the FCC had not fully justified those decisions. On

December 20, 1991, the FCC adopted an order on remand which reinstated structural relief upon a company's compliance with the FCC's Computer III Open Network Architecture (ONA) requirements, and strengthened some of the nonstructural safeguards. In the interim, the Network Services Companies had filed interstate tariffs implementing the ONA requirements. Those tariffs became effective on February 2, 1992, subject to further investigation. On March 9, 1992, the Network Services Companies certified to the FCC that they had complied with all initial ONA obligations and should be granted structural relief for enhanced services. The FCC is expected to rule on those certifications after mid-April 1992.

The FCC's December 1991 order has been appealed to various United States Courts of Appeals by several parties. Pending decisions on those appeals, which are not expected to occur before 1993, the FCC's decision remains in effect. If a Court again reverses the FCC, the Network Services Companies' right to offer enhanced services could be impaired.

FCC Cost Allocation Rules

In 1987, the FCC adopted rules governing (1) the allocation of costs between regulated and nonregulated activities and (2) transactions with affiliates. Pursuant to those rules, the Network Services Companies have filed a cost allocation manual which has been approved by the FCC.

The cost allocation rules apply to activities that have never been regulated as communications common carrier offerings and to activities that have been pre-emptively deregulated by the FCC. The costs of these activities are removed prior to the separations process and are allocated to non-regulated activities in the aggregate, not to specific services for pricing purposes. Other activities must be accounted for as regulated activities, and their costs are subject to separations. These include (1) activities which have been deregulated by the FCC without pre-empting state regulation, (2) activities which have been deregulated by a state but not the FCC and (3) "incidental activities," which cannot, in the aggregate, produce more than 1% of a company's revenues.

The affiliate transaction rules generally require that assets be transferred between affiliates at market price, if such price can be established through a tariff or a prevailing price charged to third parties. In the absence of such information, transfers from a regulated to an unregulated affiliate must be valued at the higher of cost or fair market value, and transfers from an unregulated to a regulated affiliate must be valued at the lower of cost or fair market value. Services provided to an affiliate must be valued at tariff rates, or market prices if the service is also provided to unaffiliated entities. If the affiliate does not also provide the service to unaffiliated entities, the price must be determined in accordance with the FCC's cost allocation principles.

The FCC has not made its rules pre-emptive. State regulatory authorities are free to use different cost allocation methods and affiliate transaction rules for intrastate ratemaking, and to require carriers to keep separate allocation records.

Telephone Company/Cable Television Cross-Ownership

In 1987, the FCC initiated an inquiry into whether developments in the cable and telephone industries warranted changes in the "cross-ownership" rules prohibiting telephone companies such as the Network Services Companies from providing cable service in their service territories directly or indirectly through an affiliate.

On November 22, 1991, the FCC released a Further Notice of Proposed Rulemaking (FNPRM) in its cross-ownership proceedings. The FNPRM proposes to permit telephone companies such as the Network Services Companies to provide video dial tone service on a common carrier basis.

The FCC also released a First Report and Order (Order) and a Second Further Notice of Inquiry (FNOI). In the Order, the FCC ruled that neither telephone companies that provide video dial tone service, nor video programmers that use these services, are required to obtain local cable franchises.

The FNOI asks for comments on whether the FCC should recommend to Congress any changes in the statute prohibiting telephone companies from providing cable service in their telephone service areas.

Interconnection and Collocation

On June 6, 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) which proposes to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by the Network Services Companies and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the revenues of the Network Services Companies would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the Network Services Companies requested in their comments, the FCC provides the Network Services Companies with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the Network Services Companies than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

Intelligent Networks

On December 6, 1991, the FCC issued a Notice of Inquiry (NOI) into the plans of exchange carriers, including the Network Services Companies, to deploy new "modular" network architectures, such as Advanced Intelligent Network (AIN) technology. The NOI asks what, if any, regulatory action the FCC should take to assure that such architectures are deployed in a manner that is "open, responsive, and procompetitive". The FCC is still accepting comments on this NOI, and the Company cannot predict when the FCC will issue an order in this proceeding.

The results of this inquiry could include a requirement that the Network Services Companies offer individual components of their services, such as switching and transport, to competitors who will provide the remainder of such services through their own facilities. Such increased competition could divert revenues from the Network Services Companies. However, deployment of AIN technology may also enable the Network Services Companies to respond more quickly and efficiently to customer requests for new services. This could result in increased revenues from new services that could at least partially offset the expected competitive losses.

State Regulation and Intrastate Rates

The communications services of the Network Services Companies are subject to regulation by the public utility commissions in the jurisdictions in which they operate with respect to intrastate rates and services and other matters. In 1991, there were a number of proceedings dealing with such issues as the various Network Services Companies' rates of return and the adoption of flexible regulation procedures.

New Jersey Bell

In June 1987, the New Jersey Board of Regulatory Commissioners (BRC) (which was then known as the Board of Public Utilities) issued an Order approving a Rate Stability Plan (RSP) that modified the way the BRC monitors New Jersey Bell's intrastate earnings. The RSP also capped intrastate tariffed rates for the six year duration of the plan (July 1, 1987 through June 30, 1993), subject, however, to certain exceptions which would permit New Jersey Bell to seek increases in tariffed rates during the fourth through sixth years of the plan.

The RSP separates New Jersey Bell's intrastate services into two categories, Group I (more competitive) and Group II (less competitive). Only the Group II services are subject to financial performance monitoring by the BRC for the purpose of determining whether or not New Jersey Bell is earning the target rate of return for those services. On January 19, 1989, the BRC issued an order which established a target rate of return on equity of 12.9% for the purpose of monitoring the financial performance of the Group II category of services. Under the RSP, the Group I services are allowed to earn according to the market, without restriction. Services initially comprising the Group I category were Directory Advertising, Centrex, Coin Services, High Capacity Channel and Special Access Services, Public Data Networks, Central Office Local Area Networks, and Billing and Collection Services. Subsequently, the following additional services were added to Group I: Pay-Per-View ordering service, High Capacity Digital Hand-Off Service, Bellboy® paging service, 911 enhanced terminal equipment, Home Intercom, Intercom Extra, Centrex Digital Services, Centrex Health Care Feature Package, Centrex Automatic Call Distribution, and a Dial Up Feature Option for Centrex Call Management.

In the Group II category, New Jersey Bell introduced 800 Data Base Complementary Service, which enables interchange carriers to provide end users with intrastate interLATA 800 service as a complement to New Jersey Bell's existing intraLATA 800 service, 911 Enhanced Service, and Repeat Call and Return Call on a per use basis (in addition to a monthly subscription).

New regulatory reform legislation became effective in January 1992. The legislation enables the BRC to adopt alternative regulatory frameworks that provide incentives to telecommunications companies for aggressive deployment of new technology. The legislation also deregulates services which the BRC has found to be competitive.

C&P Telephone Company

In June 1990, the District of Columbia Public Service Commission (PSC) instituted a rate proceeding for purposes of investigating the earnings levels of C&P Telephone Company. Hearings were held in October 1991. In January 1992, the PSC issued its order, and on March 6, 1992 issued an order on reconsideration. The PSC reduced C&P Telephone Company's authorized return on equity to 12.5%, but found that C&P Telephone Company was entitled to increased revenues of $632,000. The PSC adopted a one-year $1.00 promotional rate for telephone service for low-income heads of households to increase telephone penetration in the District of Columbia. The PSC approved C&P Telephone Company's investment in fiber optics and other network modernizations, virtually all of C&P Telephone Company's centralized services expenses, and a number of rate structure changes proposed by C&P Telephone Company.

In July 1988, C&P Telephone Company presented a proposal for flexible regulation to a working group established by the PSC to examine issues relating to restructuring the regulation of C&P Telephone Company. On December 30, 1988, the working group issued a report which rejected some of C&P Telephone Company's proposals and recommended that regulatory alternatives be considered in the context of a proceeding. In October 1989, the PSC held hearings on the issue of the criteria that should be used to determine the existence of competition. In June 1990, the PSC issued an order adopting criteria for determining whether actual or anticipated competition exists. In addition, the PSC established a working group to develop cost and demand study methodologies and other information necessary for application of the criteria. The working group submitted its final report in July 1991, which was approved by the PSC. In January 1992, the PSC issued an order setting procedures for processing applications by C&P Telephone Company for flexible regulation of particular services.

C&P of Virginia

In August 1990, C&P of Virginia made its first Annual Information Filing required by the Experimental Plan for Alternative Regulation of Virginia Telephone Companies. The Virginia State Corporation Commission (SCC) audited the cost allocations used to develop the filing, and its Staff approved revised cost methodologies. The Experimental Plan will be reviewed by the SCC in 1992 to determine whether modifications to it are necessary.

C&P of West Virginia

On April 27, 1988, the Public Service Commission of West Virginia (PSC) approved a stipulation between C&P of West Virginia, AT&T, MCI, US Sprint, the PSC Staff and the Consumer Advocate Division which gave C&P of West Virginia flexibility in the pricing of competitive services and provided for a freeze on rates for basic local exchange services through December 31, 1990 and a lifting, on January 1, 1989, of the moratorium on intraLATA toll competition. This "Flexible Regulation Plan" was subsequently extended through December 31, 1991. During 1991, C&P of West Virginia completed implementation of its plan to expand local calling areas and establish a new pricing structure for basic telephone service. In addition, as part of its commitment to continue investing in the telecommunications infrastructure, C&P of West Virginia replaced the last of its electromechanical central office switches with stored program control switches, and added over 13,000 miles of fiber optic cable to its outside plant network.

On March 9, 1990, the West Virginia Legislature enacted legislation which took effect on January 1, 1991, requiring the PSC to cease its regulation of the rates charged by a telephone utility for any service that the PSC finds to be offered in a workably competitive market, unless the PSC finds that to do so would adversely affect the continued availability of adequate, economical, and reliable local telephone service.

On December 20, 1991, the PSC approved, with some modifications, a Stipulation signed by C&P of West Virginia, the Consumer Advocate Division, the PSC Staff, and AT&T. That Stipulation sets forth a new Incentive Regulation Plan which continues the major provisions of the Flexible Regulation Plan, including pricing flexibility for competitive services and a freeze on the rates for basic local exchange service. It also allows C&P of West Virginia to increase charges for directory assistance and Call Waiting, provides C&P of West Virginia some flexibility in setting depreciation rates, and allows C&P of West Virginia to petition for a surcharge to reflect federally mandated separations and accounting changes. The Stipulation also provides for the phased elimination of Locality Rate Area (LRA) charges, which are basic service charges paid by customers who are located farthest from the central office. Under the PSC's order, the freeze on rates for basic service will end on December 31, 1994, instead of on July 1, 1996, as provided in the Stipulation; and the phase-out of LRA charges will end on December 31, 1994, instead of on January 1, 1996, as provided in the Stipulation.

On January 6, 1989, AT&T, MCI, and US Sprint filed a complaint to require C&P of West Virginia to reduce intrastate access charges by $3 million. The PSC heard testimony in September 1989. A decision is pending.

C&P of Maryland

In September 1988, the Public Service Commission of Maryland (PSC) instituted an investigation into rates for Centrex services, including exchange access and the Subscriber Line Charge credit.

Hearings were held in June 1989. In November 1990, the Hearing Examiner issued a proposed order upholding C&P of Maryland's pricing methodology and rates for Centrex. An appeal of the proposed order to the PSC is pending.

In May 1990, C&P of Maryland, the Office of People's Counsel, and the Staff of the PSC filed a joint petition for approval of an agreement among them concerning an appropriate regulatory structure for C&P of Maryland following the end of the Regulatory Reform Compliance Plan that had been accepted by the PSC on September 9, 1988. Hearings were held in August 1990, and on September 24, 1990 the PSC approved the agreement effective October 1, 1990. Under the agreement, earnings on services in the other-than-competitive category between 13.6% and 15.6% on equity will be shared equally between C&P of Maryland and its ratepayers, while earnings on other-than-competitive services over 15.6% on equity will be returned to ratepayers. Earnings on competitive services are not subject to a rate of return limitation. As a part of the agreement, rates for basic services are capped at current levels for two years. In addition, the PSC's September 24, 1990 order determined that a rate proceeding will be instituted not later than Spring 1992 to examine C&P of Maryland's financial and operating results, the rate structure for C&P of Maryland's services, and the effects of the new regulatory framework, and to serve as a rate case for determining rates for services that the PSC has determined are other-than-competitive.

On July 19, 1991, the PSC issued an order establishing principles and guidelines for C&P of Maryland's cost allocation manual to be used, among other purposes, in connection with implementing the agreement. The terms of that order, as modified by a PSC order dated October 25, 1991, require C&P of Maryland to impute $21.6 million in profit from services classified as competitive in the agreement (principally intrastate income from directory advertising) to its other-than-competitive category of services to determine if any refund of its earnings is required under the sharing provision of the agreement.

The PSC also has directed that an audit be performed of services obtained by C&P of Maryland from, and transactions engaged in by C&P of Maryland with, affiliated entities. An independent auditing firm was selected by the PSC to conduct the audit and is expected to file its final report with the PSC in April 1992, in advance of the rate proceeding.

Diamond State

In April 1988, in Phase I of a Delaware Public Service Commission (PSC) rate investigation in Docket 86-20, the PSC found that Diamond State's cost of equity was 12.00%, which corresponds to a 10.72% overall rate of return.

The Phase II rate structure proceeding, which resulted in reductions to permanent rates, began in the fourth quarter of 1988 and concluded in the fourth quarter of 1990. In June 1989, the PSC Staff also proposed rate structures which involved redesigning local and toll calling areas. In November 1990, the PSC approved the Delaware Regional Call Plan which expanded local calling areas almost to county boundaries, maintained dial tone line rates at existing levels and significantly reduced local usage and toll rates. These changes, as well as all Docket 86-20 permanent rate changes, went into effect on January 1, 1991.

On March 19, 1991, the PSC ruled that MTS, WATS, 800, and Private Line services should be open to competition in Delaware. The PSC also determined that both Diamond State and its competitors could seek changes in rates for competitive services using streamlined procedures. In December 1991, the PSC approved Diamond State's request for rate changes for its intrastate MTS effective January 1, 1992. These rate changes are expected to increase intrastate revenues by approximately $2.0 million.

In August 1991, the PSC approved depreciation rates recommended by the PSC Staff and Diamond State as part of the triennial review. The same rates were recommended by the FCC Staff and subsequently approved by the FCC. The new depreciation rates, which were made effective as of January 1, 1991, will result in increased annual depreciation expense. The amount of such increase for 1991 is estimated at $3.7 million.

Bell of Pennsylvania

In March 1988, the Pennsylvania Attorney General and the Office of Consumer Advocate filed complaints in the Commonwealth Court and with the Pennsylvania Public Utility Commission (PUC), respectively, alleging that Bell of Pennsylvania had engaged in overselling of certain optional services in violation of the Consumer Protection Law and the Public Utility Code. On April 10, 1990, the parties filed agreements in the Commonwealth Court and with the PUC to settle these complaints. The agreement filed with the PUC was approved by the PUC on June 14, 1990; the agreement filed in the Commonwealth Court did not require Commonwealth Court approval. Pursuant to the settlement agreements, Bell of Pennsylvania during the period from July 1990 through March 1991 credited or refunded approximately $1.15 million under the Attorney General complaint settlement and approximately $26.4 million under the Office of Consumer Advocate complaint settlement to residential customers who subscribed to or began to receive certain optional services during designated periods. Bell of Pennsylvania also made a payment of $450,000 to cover the Attorney General's legal expenses in prosecuting its complaint. In April 1991, Bell of Pennsylvania provided an additional credit of approximately $8.8 million to certain residential customers under the Office of Consumer Advocate complaint settlement. Bell of Pennsylvania also agreed under both settlements to continue modifications it had previously made to its optional services sales practices and agreed in the Office of Consumer Advocate complaint settlement to contribute $5 million (including $1 million in Bell of Pennsylvania-supplied products and services) over a five-year period to fund a telecommunications consumer education fund.

New Products and Services

Bell Atlantic® IQ℠ Services

All of the Network Services Companies have introduced or have begun testing the Bell Atlantic® IQ℠ Services family of calling features (although not all features are available in all states). These features include Identa Ring℠, which allows a single line to have multiple telephone numbers, each with a distinctive ring; Caller ID, which displays the number of the calling party; Repeat Call, which allows customers automatically to redial busy phone numbers; and Return Call, which allows customers automatically to return the last incoming call, even without knowing the number.

Other new services being offered or tested by several of the Network Services Companies include Ultra Forward℠, which customers can use to program call-forwarding instructions, and Home Intercom, which allows for phone-to-phone dialing within the home.

Gateway Services

Bell of Pennsylvania, Diamond State and the C&P Companies of D.C., Maryland and Virginia are continuing their trials of Gateway Services in the Philadelphia and Washington, D.C. LATAs. Gateway Services provide a single point of entry for users of personal computers to gain access to multiple databases.

Information Services

The Network Services Companies offer various types of information services, such as message storage services, voice mail, electronic mail, and electronic data interchange (see "Line of Business Restrictions"). The Network Services Companies also offer Answer Call, a telephone answering service aimed at residential and small business customers, which had over 375,000 subscribers by the end of 1991.

Competition

Regulatory proceedings, as well as new technology, are continuing to expand the types of available communications services and equipment and the number of competitors offering such services. An increasing amount of this competition is from large companies which have substantial capital, technological and marketing resources.

Bypass

A substantial portion of the Network Services Companies' revenues from business and government customers is derived from a relatively small number of large, multiple-line subscribers.

The Network Services Companies face competition from alternative communications systems, constructed by large end users or by interexchange carriers, which are capable of originating and/or terminating calls without the use of the local telephone company's plant. Metropolitan Fiber Systems (MFS) has begun operation of an optical fiber network which currently competes with Bell of Pennsylvania and C&P of Maryland in the Philadelphia, Pittsburgh and Baltimore metropolitan areas. In the Washington, D.C. metropolitan area, Institutional Communications Company, in which MFS has acquired a controlling interest, has deployed an optical fiber network to compete with C&P Telephone Company, C&P of Maryland and C&P of Virginia in the provision of switched and special access services and local services. Eastern TeleLogic Corporation is currently providing service in the Philadelphia area over an optical fiber network, and another company is in the process of completing an optical fiber network which would compete with Bell of Pennsylvania in the Pittsburgh metropolitan area. MFS has filed petitions with the FCC and the Department of Justice, and complaints with the Pennsylvania PUC and the Maryland PSC, seeking to require additional forms of interconnection with telephone company facilities to enhance their competitive efforts. The ability of such alternative access providers to compete with the Network Services Companies could be significantly enhanced if the FCC requires collocation of facilities or the provision to competitors of AIN technology deployed by the Network Services Companies. (See "FCC Regulation and Interstate Rates—Interconnection and Collocation" and "Intelligent Networks.")

Other potential sources of competition are cable television systems, shared tenant services and other non-carrier systems which are capable of bypassing the Network Services Companies' local plant either completely, or partially, through substitution of special access for switched access or through concentration of telecommunications traffic on fewer of the Network Services Companies' lines.

The Network Services Companies seek to meet such bypass competition by maintaining competitive cost-based prices for exchange access (to the extent the FCC and state regulatory authorities permit the Network Services Companies' prices to move toward costs), by keeping service quality high and by effectively implementing advances in technology. (See "FCC Regulation and Interstate Rates—Interstate Access Charges" and "FCC Access Charge Pooling Arrangements.")

Personal Communications Services

Radio-based personal communications services also constitute potential sources of competition to the Network Services Companies and to Bell Atlantic Mobile Systems, Inc. (Mobile Systems). The FCC has authorized trials of such services, using a variety of technologies, by numerous companies, including Mobile Systems. On January 16, 1992, the FCC adopted a Notice of Proposed Rulemaking to allocate a portion of the radio spectrum to emerging telecommunications technologies, including Personal Communications Service (PCS). PCS consists of a series of wireless portable telephone services which would allow customers to make and receive calls from any location using small handsets. If implemented, PCS and other similar services would compete with services currently offered by the Network Services Companies and by Mobile Systems, and could result in losses of revenues to those companies, although those companies may be able to derive new revenues if they themselves obtain authorizations to provide PCS or similar new services. If PCS is implemented, the FCC is expected to authorize more than a single service provider in each geographic area.

Centrex

The Network Services Companies offer Centrex service, which is a central office-based communications system for business, government and other institutional customers consisting of a variety of integrated software-based features located in a centralized switch or switches and extended to the customer's premises primarily via local distribution facilities. In the provision of Centrex, the Network Services Companies encounter increasing competition from the providers of CPE systems, such as private branch exchanges (PBXs), which perform similar functions with less use of the Network Services Companies' switching facilities.

Users of Centrex systems generally require more subscriber lines than users of PBX systems of similar capacity. The FCC increased the maximum Subscriber Line Charge on embedded Centrex lines to $6.00 effective April 1, 1989. Increases in Subscriber Line Charges result in Centrex users incurring higher charges than users of comparable PBX systems. Some of the public utility commissions having jurisdiction over the Network Services Companies have approved Centrex tariff revisions designed to offset the effects of such higher Subscriber Line Charges and to provide for stability of Centrex rates. In Maryland, a Hearing Examiner's proposed order upholding C&P of Maryland's Centrex pricing methodology and rates has been appealed to the PSC. In Virginia and West Virginia, the intercommunication portion of Centrex service has been detariffed.

IntraLATA Competition

The ability of interexchange carriers to engage in the provision of intrastate intraLATA toll service in competition with the Network Services Companies is subject to state regulation. Such competition is permitted in Delaware, Maryland, Pennsylvania and West Virginia. Intrastate intraLATA competition has been denied in New Jersey. The issue is inapplicable to Washington, D.C. since intraLATA toll service is not offered within the District of Columbia. The Virginia State Corporation Commission has instituted a proceeding to consider whether, and on what terms, to permit intraLATA competition in Virginia.

Directory

The Network Services Companies' directory operations continue to face significant competition from other providers of directories, as well as competition from other advertising media. In particular, the former sales representative of Bell of Pennsylvania, Diamond State and the C&P Companies publishes directories competitive with those produced by Bell of Pennsylvania, Diamond State and New Jersey Bell, and with those produced by the C&P Companies in the Washington, D.C. and Baltimore metropolitan areas.

Coin Telephone Service

The Company faces increasing competition in the provision of coin telephone services.

Operator Services

Alternative operator services providers have entered into competition with the Company's operator services product line.

Other Communications and Related Services

Wireless Communications

Mobile Systems provides cellular mobile telephone service in certain portions of the Territory through wholly-owned subsidiaries and limited partnerships. These entities market cellular mobile telephone service and related equipment directly to consumers, wholesale such service to businesses which resell the service to consumers, and authorize agents to sell cellular mobile telephone service to consumers. Cellular mobile telephone service is subject to FCC regulation and licensing requirements. Some states also regulate the service. To assure competition, the FCC awards two competitive licenses in each market. Many such competing cellular providers are substantial businesses with experience in broadcasting, telecommunications, cable, and radio common carrier services. Competition is based on the price of cellular service, the quality of the service, and the size of the geographic area served.

Mobile Systems has established cellular telephone service in the standard metropolitan statistical areas for Washington, D.C.; Wilmington, Delaware; Baltimore, Maryland; Allentown, Philadelphia, Pittsburgh, and Reading, Pennsylvania; and Trenton, Vineland and Atlantic City, New Jersey. Mobile Systems also has established service in the rural service areas of Kent (Dover), Delaware; Kent (Eastern Shore) and Frederick, Maryland; Ocean, Sussex and Hunterdon, New Jersey; Greene, Jefferson, Huntingdon, Lawrence and McKean, Pennsylvania; Madison, Caroline and Frederick (Fauquier), Virginia; and Wetzel and Mason, West Virginia, and is presently seeking to secure licenses in additional rural service areas in the Territory. The Company also owns a significant minority interest in a partnership providing cellular mobile telephone service in the New York City metropolitan area. Under reciprocal agreements between Mobile Systems and certain other providers of cellular mobile telephone service, the customers of Mobile Systems may use the services of those other providers in areas where Mobile Systems is not licensed to provide service.

On September 24, 1991, Bell Atlantic announced that it had entered into an agreement to acquire Metro Mobile CTS, Inc. (Metro Mobile), the second-largest independent provider of cellular mobile telephone service in the United States. Metro Mobile provides cellular service in the northeast, southeast and southwest areas of the United States. The territories served by Metro Mobile's cellular systems contain a total population approximately half the size of the total population of the territories served by Mobile Systems' existing cellular systems. The acquisition is currently expected to be consummated in the second calendar quarter of 1992.

Bell Atlantic Paging, Inc. markets paging services in portions of the Territory.

Business Systems

Bell Atlantic Business Systems Services, Inc. (Business Systems Services), which was formerly known as Sorbus Inc., is a computer maintenance company that currently maintains more than 5,000 makes and models of computer equipment and associated peripherals. Business Systems Services provides service to more than 60,000 customer sites from over 200 locations in the United States and

Canada. In addition to other third-party vendors of computer maintenance and service, Business Systems Services' major competitors are computer equipment manufacturers which offer to service the equipment they sell. In some cases, Business Systems Services is dependent on computer manufacturers and distributors for spare parts necessary for the products it services.

Business Systems Services has expanded its product line and geographic market through various acquisitions. In 1990, Business Systems Services acquired the third-party computer maintenance business of Control Data Corporation in the United States and Canada. Other acquisitions include Electronic Service Specialists Ltd. (ESS), which provides parts repair and sales for Digital Equipment Corporation equipment; Camex Industries, Inc. (Camex), which provides parts repair and sales for Imprimis and other computer peripherals; and DynService Network (DynService), which provides repair and refurbishment services on IBM and other computer manufacturers' components. ESS, Camex and DynService now comprise the Bell Atlantic Computer Technology Services Division of Business Systems Services.

Bell Atlantic Software and Systems Solutions, Inc. has three operating subsidiaries which provide customized systems and software services. Bell Atlantic Software Systems, Inc. provides consulting, software engineering, educational support services and software products for connectivity, network and communications facilities management, customer credit and approval systems, and data integration. Bell Atlantic Healthcare Systems, Inc. provides open architecture-based integrated information management solutions to the health care industry. Bell Atlantic Systems Integration Corporation, formed in 1989 as a joint venture with American Management Systems, Incorporated, provides services in the areas of network integration, strategic systems development and information systems productivity.

Bell Atlantic Customer Services International, Inc., jointly with International Computers Limited, provides computer maintenance, product distribution and customized data applications in the United Kingdom, France, Italy, Germany, Switzerland and Austria through the Sorbus group of companies.

International

Bell Atlantic International, Inc. and its subsidiaries (International) serves as the Company's principal vehicle for new business development outside the United States. International provides telecommunications consulting and software systems integration services to telecommunications authorities in several countries, and has entered into business development agreements with various governmental authorities.

In September 1990, wholly-owned New Zealand subsidiaries of International and Ameritech Corporation (Ameritech) purchased Telecom Corporation of New Zealand Limited (Telecom) in equal proportions for a total purchase price of approximately $2.4 billion. International initially acquired approximately 49% of the common stock of Telecom. Under the terms of the acquisition, International and Ameritech are required to sell stock in Telecom such that their combined ownership will, within three (or, in certain circumstances, four) years of the acquisition, be reduced to 49.9%. In furtherance of that requirement, International and Ameritech in 1991 sold a portion of their equity shares in Telecom in a worldwide public offering, thereby reducing their combined ownership in Telecom to approximately 68%.

In November 1990, International entered into joint ventures with U S WEST and the Czech and Slovak telecommunications administrations to build and operate cellular and packet data networks in Czechoslovakia. The cellular telephone system began service to the public in the cities of Prague, Bratislava and Brno in September 1991.

Other

Bell Atlanticom Systems, Inc. installs and maintains CPE primarily within the mid-Atlantic region. The CPE market is highly competitive, and competitors include large, well-financed, technologically competent firms.

Bell Atlantic Business Supplies Corp. sells Caller ID equipment and a wide range of business products to residential, work-at-home and small business customers.

Bell Atlantic Education Services, Inc. provides training services to suppliers and end users of computers and communications equipment.

Chesapeake Directory Sales Company was formed in 1987 as a partnership with GTE Corporation to sell directory advertising for the C&P Companies.

Bell Atlantic Directory Graphics, Inc. was formed in 1988 as a joint venture with R.R. Donnelley and Sons Company primarily to provide photocomposition services to the Network Services Companies' directory publishing operations.

The proposed acquisition of Metro Mobile (see "Wireless Communications"), if consummated, will result in the Company's acquiring Vision Energy Resources, Inc., a Metro Mobile subsidiary which is engaged in the sale and distribution of liquefied petroleum gas primarily in the midwestern United States and Florida.

FINANCIAL AND REAL ESTATE SERVICES

The Financial and Real Estate Services segment comprises Bell Atlantic Capital Corporation (Capital Corporation) and its subsidiaries and Bell Atlantic Properties (Properties) and its subsidiaries.

Capital Corporation's wholly-owned subsidiary, Bell Atlantic TriCon Leasing Corporation (TriCon), engages in leasing of office, medical and other equipment sold by many vendors and also provides other types of financing. In addition, TriCon provides leasing of CPE to customers of other Bell Atlantic companies, and engages in a number of large leveraged leasing transactions. Bell Atlantic Systems Leasing International, Inc., another subsidiary of Capital Corporation, engages in computer and other high technology equipment leasing and financing. The equipment financing market is highly competitive. Equipment financing companies must compete with substantial leasing companies which are affiliated with major equipment suppliers, and with other well established leasing companies, banks, and other financial institutions.

Properties invests in and develops real estate holdings, principally to meet the Company's internal requirements. In 1986, Properties acquired from The Pitcairn Company and others a commercial real estate portfolio consisting of 39 office buildings, approximately 300 acres of undeveloped real estate and a 50% interest in two other office buildings. Properties developed and owns the Bell Atlantic Tower, a 53-story office building in Philadelphia, Pennsylvania. The Company relocated its corporate headquarters to the Bell Atlantic Tower in 1991, and the occupancy rate at the Tower is now 97%.

CERTAIN CONTRACTS AND RELATIONSHIPS

Certain planning, marketing, procurement, financial, legal, accounting, technical support and other management services are provided for the Network Services Companies on a centralized basis by Bell Atlantic's wholly-owned subsidiary, Bell Atlantic Network Services, Inc. (NSI). Bell Atlantic Network Funding Corporation provides financing services to the Network Services Companies.

Certain corporate services also are provided to other subsidiaries on a centralized basis by NSI. Bell Atlantic Financial Services, Inc. provides financing services to subsidiaries of the Company other than the Network Services Companies.

The seven RHCs each own (directly or through subsidiaries) a one-seventh interest in Bell Communications Research, Inc. (Bellcore). Pursuant to the Plan, this organization furnishes the RHCs and their BOC subsidiaries with technical assistance such as network planning, engineering and software development, as well as various other consulting services that can be provided more effectively on a centralized basis. Bellcore is the central point of contact for coordinating the efforts of the RHCs in meeting the national security and emergency preparedness requirements of the federal government. It also helps to mobilize the combined resources of the companies in times of natural disasters.

EMPLOYEE RELATIONS

As of December 31, 1991, the Company and its subsidiaries employed approximately 75,700 persons, which represents approximately a 7% decrease from the number of employees at December 31, 1990. The decrease was primarily the result of a retirement incentive program which resulted in the retirement of approximately 3,200 employees at the Network Services Companies and certain other subsidiaries of the Company, as well as normal attrition. Additional reductions were achieved through a reorganization at Business Systems Services designed to streamline administration and management.

Approximately 68% of the employees of the Company and its subsidiaries are represented by unions. Of those so represented, approximately 79% are represented by the Communications Workers of America, and approximately 21% are represented by the International Brotherhood of Electrical Workers, which are both affiliated with the AFL-CIO.

Under the terms of the three-year contracts ratified in September 1989 by unions representing associate employees of the Network Services Companies and NSI, represented associates received a base wage increase of 2.25% and a cost of living increase of 1.15% in August 1991. Under the same contracts, associates received a Corporate Profit Sharing payment of $480 per person in 1992 based upon the Company's 1991 financial performance.

Item 2. ***Properties***

The principal properties of the Company do not lend themselves to simple description by character and location. At December 31, 1991, the Company's investment in plant, property and equipment consists of the following:

Communications and Related Services:	
Connecting lines	43%
Central office equipment	35
Land and buildings	7
Telephone instruments and related equipment	2
Other	11
Financial and Real Estate Services	2
	100%

"Connecting lines" consists primarily of aerial cable, underground cable, poles, conduit and wiring. "Central office equipment" consists of switching equipment, transmission equipment and related facilities. "Land and buildings" consists of land owned in fee and improvements thereto, principally central office buildings. "Telephone instruments and related equipment" consists primarily of public telephone instruments and telephone equipment (including PBXs) used by the Network Services Companies in their operations. "Other" property consists primarily of furniture, office equipment, vehicles and other work equipment, and plant under construction of the Network Services Companies, as well as the property of the other Communications and Related Services companies. Financial and Real Estate Services property consists mainly of construction-in-progress, land and buildings owned by BAP. Not included in the above properties is $438.6 million of equipment, net of accumulated depreciation of $944.5 million, under operating leases owned primarily by TriCon and BASLI at December 31, 1991. Additional information with respect to the Company's plant, property and equipment is set forth in Schedule V on page F-4 of this report.

The Company's central offices are served by various types of switching equipment. At December 31, the number of local exchanges served and the percent of subscriber lines served by each type of equipment are as follows:

	1991		1990	
	# of Local Exchanges	% of Subscriber Lines Served	# of Local Exchanges	% of Subscriber Lines Served
Electronic	3,930	99	3,798	99
Crossbar	14	1	32	1
Other	5	—	17	—
	3,949	100	3,847	100

An analysis of the estimated components of the Network Services Companies' construction programs for the last two years is as follows:

(In Millions)	1991	1990
Network growth	$1,051	$1,158
Network modernization	482	391
Network support	315	338
Market specific	166	171
Network replacement	172	159
Operations support	92	79
	2,278	2,296
Allowance for funds used during construction	20	24
Total construction program	$2,298	$2,320

Item 3. ***Legal Proceedings***

Pre-Divestiture Contingent Liabilities

The Plan provides for the recognition and payment by AT&T and the former BOCs (including the Network Services Companies) of liabilities that are attributable to pre-Divestiture events but do not become certain until after Divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts, and torts (including business torts, such as alleged violation of the antitrust laws). Except to the extent that affected parties otherwise agree, contingent liabilities that are attributable to pre-Divestiture events are shared by AT&T and the BOCs in accordance with formulas prescribed by the Plan, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. Each company's allocable share of liability under these formulas depends on several factors, including the type of contingent liability involved and each company's relative net investment as of the effective date of Divestiture. Under the formula generally applicable to most of the categories of these contingent liabilities, the Network Services Companies' aggregate allocable share of liability is approximately 10.2%.

The Company's share of these liabilities to date has not been material to its financial position or results of operations for any period. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of the Company's management, any monetary liability or financial impact to which the Company is subject as a result of these contingent liabilities is not expected to be material in amount to the financial position of the Company.

Pending Cases

AT&T and various of its subsidiaries and the BOCs (including in some cases one or more of the Network Services Companies) have been parties to various types of litigation, including litigation involving allegations of violations of antitrust laws and equal employment laws. Most of the litigation alleging violations of the antitrust laws has been resolved. However, other matters are still pending. Damages, if any, ultimately awarded in these remaining actions relating to pre-Divestiture events could have a financial impact on the Company whether or not the Company is a defendant since such damages will be treated as contingent liabilities and allocated in accordance with the allocation rules established by the Plan (see "Pre-Divestiture Contingent Liabilities" above).

On April 12, 1990, a letter was submitted to the Company's Board of Directors by a law firm, purportedly on behalf of a shareowner of the Company, requesting that the Company commence action against any present or former director, officer or employee of the Company or any of its subsidiaries who might be found to have violated any duty to the Company in connection with (i) certain litigation involving Bell of Pennsylvania and (ii) a temporary suspension of the Company and C&P Telephone Company from eligibility for future federal government contracts (the "Treasury suspension"). As previously reported by the Company in its Form 10-Q for the quarters ended March 31 and September 30, 1990 and Form 10-K for the year ended December 31, 1990, the Bell of Pennsylvania litigation involved allegations that this subsidiary had engaged in improper practices while selling certain optional services, and resulted in a settlement pursuant to which Bell of Pennsylvania made payments and refunds aggregating approximately $42 million; the Treasury suspension involved allegations that the Company and C&P Telephone Company had misrepresented certain facts in connection with a bid for a particular government contract, and was terminated approximately one month later after the Company agreed to re-emphasize to employees the need to verify information provided to the government, including information supplied to the Company by sub-contractors.

In response to the demand letter (a similar letter, purportedly on behalf of a different shareowner, was received shortly thereafter), the Board on April 24, 1990 appointed a committee of three outside directors (James H. Gilliam, Jr., (Chairman), William G. Copeland and John F. Maypole) to investigate these matters and present its recommendation to the Board (the "Special Committee").

On May 11, 1990, the Company was served with a complaint filed in the Court of Common Pleas of Philadelphia County, Pennsylvania, naming certain then-current directors and officers (including Thomas E. Bolger, Anton J. Campanella, Robert A. Levetown, and Raymond W. Smith) as defendants in a shareholder derivative suit. The complaint alleged that the defendants had breached their fiduciary duties to the Company and its shareowners by failing to implement and enforce adequate safeguards to prevent the activities which resulted in the Bell of Pennsylvania litigation and the Treasury suspension referred to above.

The Special Committee retained independent outside counsel and conducted a five-month investigation. After completion of its investigation, the Special Committee concluded that it would not be in the best interest of the Company and its shareowners to assert claims or take any other action against any director or officer of the Company or any of its subsidiaries with respect to either the Bell of Pennsylvania litigation or the Treasury suspension. Accordingly, the Special Committee recommended that the Board reject the demands expressed in the shareowner letters, and the Board on October 23, 1990 adopted this recommendation. Counsel for each of the demanding shareowners was advised of the Board's determination.

On June 19, 1991, the Company was served with a complaint filed in the United States District Court for the Eastern District of Pennsylvania naming all of the then-current directors of the Company (including all of the nominees for re-election at the 1992 Annual Meeting) and one former officer as defendants in a shareowner class action and derivative suit. This lawsuit makes allegations very similar to the Common Pleas suit with respect to the Bell of Pennsylvania litigation and Treasury suspension matters and, in addition, alleges that the Company violated federal proxy rules and regulations and its duty of candor under state law by failing to disclose, in its 1987-91 proxy materials, information about the Bell of Pennsylvania litigation, the Treasury suspension, the appointment of the Special Committee, and the Common Pleas litigation referred to above.

Both the Common Pleas and the federal District Court actions are still pending. As reported in the Company's Form 10-Q report for the quarter ended September 30, 1991, the Pennsylvania Supreme Court refused to hear the defendants' appeal of the trial court's denial of their motion to dismiss the Common Pleas litigation. The parties to the federal court action on March 25, 1992 reached an agreement to settle that action, subject to court approval after notice to the Company's shareowners. If approved, this settlement will result in the dismissal with prejudice of all claims asserted in the federal court action, without the payment of any damages but subject to payment of the plaintiffs' attorneys fees up to $450,000. The Company and the individual defendants believe they have meritorious defenses to the claims asserted and continue to deny the allegations made in the lawsuit, but nevertheless desire to settle the suit on the proposed terms to avoid the burden, inconvenience and expense of lengthy and time-consuming litigation. The settlement agreement expressly recognizes that the settlement does not constitute an admission of liability by the Company or the individual defendants with respect to any of the claims asserted in the federal court action.

In its Annual Report on Form 10-K for the year ended December 31, 1990, the Company also reported that in January 1991, the Company and its Chief Executive Officer and its former Chief Financial Officer were named as defendants in several identical class action complaints. These complaints, which have been consolidated in a single proceeding in the United States District Court for the Eastern District of Pennsylvania, allege that, during a class period from October 18, 1990 through January 22, 1991, the plaintiffs purchased shares of Bell Atlantic stock at inflated prices as a result of the Company's alleged failure to disclose material information regarding certain aspects of the Company's financial performance and prospects. The trial court granted the defendants' motion to dismiss this action and to dismiss the plaintiffs' request for leave to amend their complaint; that decision has been appealed by the plaintiffs.

As reported in the Company's Form 10-Q report for the quarter ended September 30, 1991, the Company was served in September 1991 with a class action complaint filed in the Court of Chancery of the State of Delaware naming Metro Mobile, its directors and Bell Atlantic as defendants. The complaint alleges that the Metro Mobile directors breached their fiduciary duties to Metro Mobile's shareholders in connection with the execution of the merger agreement between Metro Mobile, Bell Atlantic and a wholly-owned subsidiary of Bell Atlantic. The complaint further alleges that the Company aided and abetted such breach. The complaint seeks a declaratory judgment, the imposition of a voting trust upon shares of Metro Mobile stock owned or controlled by the defendants, injunctive relief and unspecified monetary damages. The Company has been informed that two other actions have been filed containing similar allegations and seeking similar remedies. The Company believes that the allegations in the complaint are without merit.

While complete assurance cannot be given as to the outcome of any litigation, in the opinion of the Company's management, any monetary liability or financial impact to which the Company would be subject after final adjudication of all of the foregoing actions would not be material in amount to the financial position of the Company.